

THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP)

DRAFT SUBSTANTIAL AMENDMENT

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Introduction

Title III of Division B of the Housing and Economic Recovery Act of 2008 (hereinafter “HERA”) provides emergency assistance to states and localities for the redevelopment of abandoned and foreclosed homes. The program is known as the Neighborhood Stabilization Program (NSP). The focus of this program is the purchase, management and resale of foreclosed and abandoned properties for the purpose of stabilizing neighborhoods. Unless HERA provides otherwise, grants must comply with Community Development Block Grant (CDBG) requirements.

Minnesota Housing is the grantee for the State of Minnesota NSP funds in the amount of \$38.8 million. The plan describes Minnesota Housing’s distribution plan, eligible applicants, application requirements, eligible uses and activities, funding cycles, and performance evaluation for NSP funds.

Minnesota Housing will sub grant NSP funds to eligible local units of governments with experience administering CDBG funds. Sub grantees are expected to be knowledgeable on the CDBG program as well as the laws and regulations governing the Neighborhood Stabilization Program. Sub grantees must commit and expend funding in accordance with NSP funding guidelines and the targeting and distribution process described in the Action Plan.

Timelines and Funding Cycles

The timeline for release of the \$38.8 in NSP funds held by Minnesota Housing will occur in stages; the initial posting of the application will occur in December of 2008, with an application deadline of January 17, 2009. Awards for this first round of funding from both competitive and non-competitive pools are expected to be made in February of 2009. At that point, the remaining funding will be collapsed and available on a pipeline basis.

Areas of Greatest Need and Distribution Plan

The determination of maximum initial distributions of NSP funds has been made based on four identified categories of areas of greatest need:

- Areas with initial maximum distributions to sub recipients already receiving NSP funds directly from HUD (Anoka, Dakota, and Hennepin counties, and the cities of Minneapolis and St. Paul);
- Areas for which maximum distributions are assigned for Community Revitalization projects pre-identified in areas of greatest need.
- Areas with high need which did not receive direct distributions from HUD and which are assigned more than \$500,000 based on Minnesota Housing's funding formula.
- Competitive pools for other high-need areas which were assigned less than \$500,000 based on Minnesota Housing's funding formula, and separated for access by geographic region - Metro Area and Greater Minnesota Area. Communities in any high need counties would be eligible to compete for these funds.

The first funding round has four set-asides: two competitive pools and two non-competitive pools. The competitive pools are divided into Metro and Greater Minnesota allocations, and are available to high-need counties with zip codes which would receive less than \$500,000 under the Minnesota Housing funding formula. The non-competitive pools are available to NSP entitlement areas and other areas that have zip codes eligible for more than \$500,000 using the Minnesota Housing funding formula. This round of funding also includes resources for those Community Revitalization (CRV) applicants identified as eligible for funding in the fall 2008 Minnesota Housing CRV funding round.

Except for certain limitations described on page 6, all eligible uses identified in HERA will be eligible for State NSP funds. These activities are:

- Acquisition and rehabilitation for homeownership;
- Acquisition and rehabilitation for rental;
- Establishing land banks;
- Demolition of blighted structures; and
- Redevelopment of demolished or vacant structures.

Minnesota Housing will undertake an evaluation of the uses and outcomes achieved with NSP funding and will require as part of the funding agreement that certain information be provided to Minnesota to assist in the evaluation efforts.

Public Comments

Public comments can be made at a public hearing on November 13, 2008 or be submitted in writing to Minnesota Housing. The comment period will end on November 24, 2008 at 10:00 a.m. and the final Action Plan will be available on November 26, 2008. Minnesota Housing encourages those providing comments to identify areas in the Action Plan that need clarification or amplification. Minnesota Housing recommends that any suggested changes or modifications to this plan provide supporting data for recommended changes.

Minnesota Housing will incorporate cost-effective energy efficiency and/or green standards into its rehabilitation standards. To assist in developing such standards, Minnesota Housing is requesting comments and suggestions from the public on reasonable and cost-effective standards for energy efficiency and/or green rehabilitation.

Written public comments on the NSP Action Plan can be submitted to: Ruth Simmons, Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101. Written comments may also be submitted by fax to (651) 296-8292 or by e-mail to ruth.simmons@state.mn.us. To ensure consideration of your comments, type "Action Plan Amendment" in the subject line of your e-mail.

A. AREAS OF GREATEST NEED

Overview

HERA requires that grantees that receive NSP funding "...give priority consideration and emphasis to those ...areas with the greatest need, including those -----

- (A) with the greatest percentage of home foreclosures;
- (B) with the highest percentage of homes financed by a subprime mortgage related loan; and
- (C) identified by the State or unit of general local government as likely to face a significant rise in the rate of home foreclosures."

Minnesota Housing Process Summary:

Outlined below is the methodology that Minnesota Housing used to identify areas of greatest need and to assign initial maximum funding distributions around the state. To accomplish this task, Minnesota Housing analyzed foreclosure, real-estate-owned (REO), subprime, and delinquency data on a zip code basis and sheriff's sales data on a county basis.

1. Identify the 120 zip codes with the highest foreclosure/REO, subprime, and delinquency rates (problem loans per 100 households).
2. Initially, assign funds to the 120 high-need zip codes based on their number of foreclosures, REOs, delinquencies, and subprime loans, using the total funding level allocated to both the state and the five entitlement jurisdictions.
3. Adjust initial assignment to account for:
 - o Rates of foreclosures/REOs, delinquencies, and subprime loans per 100 households (with a 20 percent cap). (The initial assignment in step 2 is based on the number of problem loans, not the rate per 100 households.)
 - o Median family income level (with a 15 percent adjustment cap).
 - o Median age of housing stock (with a 15 percent adjustment cap).
4. Adjust the assignment downward for the zip codes that fall in Anoka, Dakota, Hennepin counties and the cities of St. Paul and Minneapolis to account for the funds that these localities will receive directly from HUD.
5. Make final assignment of funds to zip codes receiving more than \$500,000 under the funding formula; make these funds available on a non-competitive basis with applications due January 17, 2009.
6. Do not assign but pool funds for zip codes that were to receive less than \$500,000 under the funding formula; make pooled funds available in any one of the 24 highest-need counties (not just the zip codes identified as high-need) on a competitive basis with applications due January 17, 2009 for both a Greater Minnesota and Metro Area pool.
7. If funds are still available and not distributed to specific stabilization efforts after Minnesota Housing's Board makes awards at the end of February, 2009, collapse all remaining funds (zip-code assignment and competitive pool) into a single pool. These funds will be available on a pipeline basis for stabilization efforts in any of the 24 highest-need counties.
8. Limit funding to efforts that meet program goals, criteria, and requirements.

The 120 highest-need zip codes (out of 872 statewide) each have a concentration of problems loans (foreclosures, REOs, delinquencies, and subprime loans) per 100 households that is at least 27 percent higher than the statewide concentration of problem loans. The 24 highest-need counties (out of 87 statewide) either rank in the top 20 in number of sheriff sales or in the top 20 in concentration of sheriff's sales per 100 households. Sixteen counties rank in the top 20 under both criteria, while 8 rank in the top 20 under one of the

two criteria. The 20 counties with the highest concentration of sheriff sales each have at least as many sheriff's sales per 100 households as the overall statewide rate.

To identify the 120 highest-need zip codes discussed in step one of the process summary above, Minnesota Housing developed the following need score:

Score =

- $0.7 \times (\text{the zip code's number of loans in foreclosure or REO per 100 households} / \text{state's foreclosures or REOs per 100 households})$
+
- $0.15 \times (\text{the zip code's number of subprime loans per 100 households} / \text{state's subprime loans per 100 households})$
+
- $0.15 \times (\text{the zip code's number of loans 60+ days past due per 100 households} / \text{state's loans 60+ days past due per 100 households})$

(The delinquency rate is an assessment of the potential for future increases in foreclosures.)

The need score expresses each zip code's rate of problem loans in relation to the overall state rate. A zip code with a need score of 200 percent has twice as many problem loans per 100 households as the state average, and a zip code with a need score of 600 percent has six times as many problems per 100 households.

See the spreadsheet titled "Zip Code Analysis" for a listing of each zip code's need score and maximum distributions. The spreadsheet can be accessed at

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007439.xls

Also, see the spreadsheet titled "County Analysis" for the number and rate of sheriff sales in each county. The county spreadsheet can be accessed at

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007438.xls

A detailed description of the data sources, methodology and final maximum distributions (Tables 4a, 4b and 5) is attached as Appendix A at the end of this document.

B. DISTRIBUTION AND USES OF FUNDS -- STATE NSP GOALS

Minnesota Housing has three goals for the NSP funding:

- 1) To maximize the revitalization and stabilization impact on neighborhoods;
- 2) To complement and coordinate with other federal, state and local investment in the targeted neighborhoods;
- 3) To preserve affordable housing opportunities in the targeted neighborhoods.

NOTE: See detailed information in the overview above that addresses the Minnesota Housing plan to focus on the three need categories 1) Areas with greatest percentage of home foreclosures; 2) Areas with the highest percentage of homes financed by a subprime mortgage related home; and 3) Areas identified by the grantee as likely to face a significant rise in foreclosure.

Eligible Applicants

Local units of government experienced in administering CDBG funding are eligible applicants. Local units of government include cities, HRAs, EDAs, CDAs, PHAs and counties. Only local units of government operating in the zip codes or counties identified as areas of greatest need may apply for funds. For cities

within NSP entitlement counties, (Anoka, Dakota, and Hennepin, with the exception of the city of Minneapolis), the entitlement county is the eligible applicant. For local units of government within the NSP entitlement cities, (Minneapolis and St. Paul), the entitlement city is the eligible applicant. Local units of government who have contracted with other entities to administer CDBG funds and do not have direct experience administering CDBG funds must contract with an experienced CDBG administrator to administer the NSP funds.

Minnesota Housing will sub grant NSP funds to eligible applicants. The sub grantees may accept applications to undertake eligible activities and/or may directly undertake eligible activities. Sub grantees are encouraged to work with experienced housing developers and property management companies and other local units of government in developing their application for state NSP funds.

Eligible Uses and Activities

HERA establishes five (5) eligible uses of NSP funds:

- Financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties;
- Purchases and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent or redevelop the homes and properties;
- Land banking for homes that have been foreclosed upon;
- Demolition of blighted structures;
- Redevelopment of demolished or vacant properties.

Restrictions of Redevelopment of Commercial Properties

NSP funding through Minnesota Housing may not be used for redevelopment of commercial properties and may only be used for the demolition of blighted commercial properties if the vacated land will be used for a residential or public purpose.

Restrictions on Demolition

NSP funding through Minnesota Housing may only be used for demolition of blighted properties if the demolition is part of a plan for redevelopment of the targeted neighborhoods.

C. DEFINITIONS AND DESCRIPTIONS

(1) Definition of “blighted structure” in context of state or local law.

Minnesota will allocate its funds to sub recipients in several local government jurisdictions. Though the State of Minnesota does not have a definition of “blighted structure,” Minnesota Housing has modified the State’s definition of “blighted area” to apply to structures. The State of Minnesota’s definition of “blighted area,” as modified to define a “blighted structure,” follows:

Blighted structure. Blighted structure is one which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, is detrimental to the safety, health, morals, or welfare of the community.

Sub recipients may use either the local jurisdiction’s definition of “blighted structure” or Minnesota Housing’s definition, and will designate which definition they will use in their application for funding to Minnesota Housing.

(2) Definition of “affordable rents.”

Minnesota Housing will adopt the definition of affordable rents that is contained in 24 CFR §92.252(a). This definition is consistent with the continued affordability requirements of the same section that Minnesota will adopt for the NSP program.

(3) Continued affordability for NSP assisted housing.

Sub recipients will be required to include in their loan documents the affordability requirements of 24 CFR §92.252(a), (c), and (e) and §92.254. Affordability requirements for rental properties will be specified in the loan and/or mortgage documents, and a deed restriction or covenant similar to the HOME program. Mortgages and deed restrictions or covenants will be recorded against the property and become part of the public record.

Affordability of owner-occupied housing will be enforced by recapture. Each sub recipient will design its own recapture provisions.

(4) Housing rehabilitation standards that will apply to NSP assisted activities.

NSP-assisted housing that is rehabilitated must be rehabilitated in accordance with the State Building, Electrical, and Plumbing Codes. Upon completion, the housing must be in compliance with local housing standards. If local housing standards do not exist, the housing must meet the minimum housing quality standards (HQS) of 24 CFR 982.401.

Where local housing standards exist, sub recipients must identify the standards that will apply to their projects and provide a copy to Minnesota Housing. As projects are rehabilitated, the sub recipients must document how each project meets the local standard, or HQS if there is no local standard, for Minnesota Housing’s monitoring review.

Minnesota Housing will incorporate cost-effective energy efficiency and/or green standards into its rehabilitation standards. To assist in developing such standards, Minnesota Housing is requesting comments and suggestions from the public on reasonable and cost-effective standards for energy efficiency and/or green rehabilitation.

D. LOW INCOME TARGETING -- Income Restrictions

Minnesota Housing will allocate \$9,700,000 of the grant and 25% of program income to be used to house individuals and families with incomes not exceeding 50% of AMI.

Activities funded with NSP funds must benefit households with incomes at or below 120% of area median income (low, moderate and middle income households). For activities that do not benefit individual households, the activity must benefit areas in which at least 51% of the residents have incomes at or below 120% of area median income. Applicants should consult HUD's website at:

http://www.huduser.org/publications/commdevl/nsp_target.html

for information on block group data on incomes to determine the incomes of the residents of the area in which the activities are to be undertaken.

Each sub-grantee must use at least twenty-five percent (25%) of the funding to house individuals and families with incomes at or below 50% of area median income.

Also See Section G below for additional information required regarding specific activities.

Application Requirements: Applicants must provide sufficient detail for Minnesota Housing to evaluate the extent that it will restore/sustain neighborhoods and generate a healthy living environment. Applicants must identify and prioritize impacts being experienced in the area or community and fully discuss activities they propose in response. Activities or projects proposed should have a line-item budget detailing the cost of the activity and the anticipated result in terms of units assisted and number of demolitions. Applicants should list other entities in their application/plan if they intend to sub grant their NSP allocated dollars.

1. **Identify Targeted Neighborhoods or Blocks.** Applicants must define the neighborhoods to be targeted. For each neighborhood to be targeted:
 - Describe the neighborhood size and boundaries
 - Provide number of residential properties (single family and rental)
 - Number of properties in foreclosure
 - Number of properties that are abandoned
 - Income based on census block data
 - Age of housing stock
 - Change in housing prices in last 5 years (if available)
 - Distance to bus routes or transit, major highways, and or commuter rail,
 - Employment opportunities within the neighborhood or within one mile.

Note that non-competitive applicants can only use NSP state funds in zip codes of highest need detailed in Appendix A of this Action Plan. However, applicants may concentrate resources within one or more of those zip codes. Applicants must provide a rationale and data to support the choice of areas for targeting of resources.

2. **Activities to be Undertaken and Outcomes.** Applicants must describe the activities for which NSP funds will be used and how those activities will contribute to the stabilization of the targeted neighborhoods or blocks, develop new housing opportunities in the targeted neighborhoods or blocks and preserve land for future redevelopment. Effectiveness of the activities to be undertaken can be demonstrated by describing past experience with the activity, either by the applicant or others and the measurable outcomes. Specific outcomes must be identified. Outcomes should describe the final disposition of property or activities, such as the number of properties the entity intends to hold, reuse, and reuse for what purpose, AND whether the property will be owner-occupied or rental.

Applicants intending to use NSP funds for homeownership opportunities for low-income households (below 50% of area median) must describe steps that will be taken to promote successful homeownership, e.g. pre and post-purchase counseling and the costs of such services, and identify the providers of such services and the source of funding for the support services.

Applicants intending to use NSP funds for demolition must describe short-term and long-term plans for the use of the land, including how and who will maintain the vacated property until it is redeveloped and the timeframe for likely redevelopment of the property. Demolition plans should include a strategy for assembling land for redevelopment and not simply demolition on a case-by-case basis. Applicants are encouraged to plan interim community uses for vacant land such as community gardens, playgrounds and parks.

Applicants intending to use NSP funds for land banking must describe how the use of the land bank will facilitate housing affordable to the targeted incomes and how it will assist in stabilizing neighborhoods. Land banks must operate in specific, defined geographic areas.

3. Neighborhood Improvement Efforts. Applicants must describe existing or anticipated neighborhood improvements efforts to:
 - Encourage commercial development,
 - Improve safety,
 - Improve schools,
 - Develop and improve parks and recreation,
 - Improve transportation and streets,
 - Improve landscaping, sidewalks, and medians, and
 - Engage citizens in neighborhood stabilization.
4. Partnerships. Applicants should identify collaborating partners to complement and supplement the applicant's expertise and approach in neighborhood stabilization and/or improve the applicant's capacity to meet the expectations of their stabilization plans.

Applicants should identify funding partners to improve their investment in the targeted areas for revitalization in order to maximize housing and neighborhood outcomes. Applicants are expected to consider all programs available to them, including those available through utility companies for energy efficiency improvements.

5. Feasibility and Degree of Readiness. Applicants must estimate the number of properties and households with each activity undertaken with NSP funds. Applicants must demonstrate the feasibility of assisting the estimated number of households and properties in a timely fashion.

Interim evaluations regarding the progress of awardees' obligations will be ongoing through out the project timeline. Applicants are encouraged to seek out capacity wherever it can be found to meet the timelines of their projects/activities.

6. Income targeting. Applicants must describe how they will ensure that 25% of the funds expended benefit households with incomes at or below 50% of area median income.
7. Timeframes. Applicants will be required to describe expected outcomes in terms of numbers of obligations for acquiring, rehabilitating or demolishing properties within six months, nine months, and 12 months of selection.

Funding Decisions

Funding will be awarded based on the extent to which an eligible applicant demonstrates that:

- 1) the funding request is part of a comprehensive plan or strategy to stabilize a neighborhood(s) or blocks including efforts to improve living conditions, preserve affordable housing opportunities, stabilize home values, address public safety, school performance, job creation and other economic development need;
- 2) it is feasible to use the requested funding within the required timeframe;
- 3) the applicant is maximizing opportunities to leverage other resources, both private and public; and
- 4) the identified outcomes are achievable.

Priority will be given to applications that target areas within one-quarter mile of existing or planned transit routes and that promote economic diversity within the targeted areas.

Pool Distribution Process

Time is of the essence, for grant funds must be obligated within 18 months of Minnesota Housing's Grant Agreement signed by the Department of Housing and Urban Development (HUD). Minnesota Housing will sub grant funds to local governments and other qualified entities that

- 1) have experience administering CDBG funds and demonstrate capacity;
- 2) provide substantial impact to the housing market in a geographic area; and
- 3) provide evidence of a comprehensive neighborhood stabilization strategy.

In order to assure timely distribution of funds, Minnesota Housing will offer concurrent applications due on January 17, 2009. If funds are still available, funding will collapse at the end of February 2009 with applications then entertained on a pipeline basis. Should insufficient progress be noted in the obligation of funds, Minnesota Housing may re-allocate resources between sub recipients or use funds directly in order to meet HERA's 18-month timeline.

Initial distribution of funds will occur under four pools concurrently, two competitive pools and two non-competitive pools. Under the non-competitive pool process NSP HUD recipients and zip codes eligible for more than \$500,000 can apply for up to the maximum assigned amount in areas identified under Minnesota Housing's funding formula, including the Community Revitalization projects addressed within their high-need city/county area, as described in Sections A and B of this Action Plan. The competitive Metro and Greater Minnesota pools will become available simultaneously for eligible applicants in 24 high-need counties that would be eligible for less than \$500,000 under Minnesota Housing's funding formula, as described in Sections A and B of this Action Plan. Minnesota Housing will evaluate both competitive and non-competitive applications for ability to conceive and implement a comprehensive neighborhood stabilization strategy.

NSP funds remaining (not awarded) under the initial distribution will be collapsed into one single pool for interested applicants. This pool will be open on a pipeline selection basis for eligible applicants in any one of the 24 highest-need counties. The date of the collapse will coincide with Minnesota Housing's Board approval of initial applicants, projected to be the end of February of 2009.

Interim evaluations of awardees' performance in the obligation of funds will be conducted at six months, nine months, and 12 months of Minnesota Housing's signing of its grant agreements with sub recipients. If Minnesota Housing deems that progress toward obligating funds is insufficient for meeting the HERA 18-month obligation deadline, Minnesota Housing may reallocate NSP funds between sub recipients or offer direct assistance or award funds directly to project applicants. Should Minnesota Housing offer direct assistance, it may undertake any activity included in this Action Plan.

Reporting Requirements/ Evaluation Sub grantees will be required to submit actual outcome numbers as compared to projected numbers on at least a quarterly basis.

Success in the use of NSP funds is viewed not merely in the numbers of houses bought, demolished or rehabilitated, but in the extent to which neighborhoods have been restored or stabilized, meeting the criteria of a functioning market. Sub grantees will be required to submit information necessary to evaluate the success of the program.

E. ACQUISITIONS & RELOCATION

Minnesota Housing will award its NSP funds to sub recipients. Minnesota Housing does not intend to demolish or convert low- and moderate-income dwelling units, but that activity may be deemed an important part of neighborhood stabilization by sub recipients and occur never the less. Until sub recipients apply for Minnesota Housing NSP funds, Minnesota Housing is unable to anticipate the extent to which dwelling units may be demolished or converted.

With \$3.8 million of the NSP allocated to administration and planning and nearly \$35 million for projects with an expected average per unit cost to NSP of \$50,000, Minnesota Housing anticipates that 700 units will be available for households with incomes at or below 120% of AMI, and 194 units for households at or below 50% of AMI. Though the amount of program income to be generated is unknown, it is expected to produce an equivalent distribution of housing for these two income groups.

F. PUBLIC COMMENT

Minnesota Housing will provide a summary of public comments received to this proposed NSP Substantial Amendment.

G. NSP INFORMATION BY ACTIVITY

Activity Number 1: **Acquisition and Rehabilitation, Homeownership**

Activity Type: (include NSP eligible use & CDBG eligible activity)

NSP-Eligible Use	CDBG Eligible Activity
Establish financing mechanisms	Activity delivery costs for an eligible activity as defined in 24 CFR 570.206 and eligible activities defined below
Purchase and rehabilitate homes that have been abandoned or foreclosed upon in order to sell, rent, or redevelop such homes	<ul style="list-style-type: none">• 24 CFR 570.201(a) Acquisition(b) Disposition,(i) Relocation, and(n) Direct homeownership assistance, including downpayment and closing cost assistance, mortgage interest rate reduction, lease/purchase, contract for deed

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., $\leq 120\%$ of area median income).

This acquisition and rehabilitation activity meets the HERA low- and moderate-income national objective by providing permanent residential structures that will be occupied by households with incomes at or below 120 per cent of area median income.

Projected Start Date: September 29, 2008

Projected End Date: March 1, 2013

Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Minnesota Housing will sub grant funds to local governments and nonprofit organizations that have not yet been selected. Sub recipients will be posted on Minnesota Housing's website after their selection. If progress toward obligating funds within deadlines is insufficient, Minnesota Housing may recapture NSP allocations of sub recipients and offer direct assistance.

Minnesota Housing Finance Agency is the State's responsible organization.

Address: 400 Sibley Street, Suite 300

St. Paul, MN 55101

Agency Contact: Ruth Simmons

(651) 297-5146

ruth.simmons@state.mn.us

Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Depending on sub recipient priorities, this activity may be available in any of the greatest need areas identified in Section A above.

Activity Description:

This activity will acquire and rehabilitate vacant, abandoned, and foreclosed homes, which will be made available for sale to the full range of income-eligible persons for homeownership, including those with incomes below 50% of area median income. The activity will be available for sub recipients serving any of the areas of greatest need described in A. above, if it is deemed by them in their application to be a priority activity. The acquisition and/or rehabilitation may be conducted by the sub recipient, a developer, or a homebuyer.

The homebuyers will benefit from this activity as foreclosed and abandoned homes are brought back on line and sold to them at less than cost. Sub recipients will use the HOME recapture requirements as the minimum means to meet the continued affordability requirements of the Notice. The period of continued affordability will be at least as long as the period of affordability described in 24 CFR 92.254(a)(4). Recapture requirements and affordability periods will be defined by the sub recipients in their applications to Minnesota Housing for NSP funding and must equal or exceed the requirements of 24 CFR 92.254. But, as with the HOME requirements of 24 CFR 92.254 (a)(5), the requirement that the property continue to be occupied by NSP-eligible owners will expire with recapture of the NSP investment.

The acquisition discount from current appraised value for foreclosed properties will be at minimum 5% per property, and an average discount of 10% per property. The discount methodology will take into account the condition of the property and likely carrying costs to the seller if the property continues in its portfolio.

The role and structure of NSP funds in financing acquisition and/or rehabilitation are unknown at this time, but will be determined by each sub recipient and specified in their applications to Minnesota Housing. Possibilities include contracts for deed or a participation in contracts for deed; first or second mortgages, either amortizing or deferred and participation in such mortgages; grants; low- or no-interest construction financing; downpayment and closing cost assistance.

Activity Number 2:
Acquisition and Rehabilitation, Rental

Activity Type: (include NSP eligible use & CDBG eligible activity)

NSP-Eligible Use	CDBG Eligible Activity
Establish financing mechanisms	Activity delivery costs for an eligible activity as defined in 24 CFR 570.206 and eligible activities defined below
Purchase and rehabilitate residential properties that have been abandoned or foreclosed upon in order to sell and/or rent such properties	<ul style="list-style-type: none">• 24 CFR 570.201(a) Acquisition(b) Disposition,(i) Relocation.

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., $\leq 120\%$ of area median income).

This acquisition and rehabilitation activity meets the HERA low- and moderate-income national objective by providing permanent residential structures that will be occupied by households with incomes at or below 120 per cent of area median income.

Projected Start Date: September 29, 2008

Projected End Date: March 1, 2013

Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Minnesota Housing will sub grant funds to local governments and nonprofit organizations that have not yet been selected. Sub recipients will be posted on Minnesota Housing's website after their selection. If progress toward obligating funds within deadlines is insufficient, Minnesota Housing may recapture NSP allocations of sub recipients and offer direct assistance.

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Address: 400 Sibley Street, Suite 300

St. Paul, MN 55101

Agency Contact: Ruth Simmons

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ruth.simmons@state.mn.us

Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Depending on sub recipient priorities, this activity may be available in any of the greatest need areas identified in Section A above.

Activity Description:

This activity will acquire and rehabilitate vacant, abandoned, and foreclosed residential properties, which will be made available for rental to the full range of income-eligible persons, including those with incomes below 50% of area median income. The activity will be available for sub recipients serving any of the areas of

greatest need described in A. above, if it is deemed by them in their application to be a priority activity. The acquisition and/or rehabilitation may be conducted by the sub recipient, a developer, or a homebuyer.

Renters will benefit from this activity as foreclosed and abandoned properties are brought back on line and rented to tenants at rents that do not exceed the HOME rent limits specified in 24 CFR 92.252.

When a project is a rental property, NSP funds may also be used to capitalize an operating reserve to reduce tenants' rents to more affordable levels.

The acquisition discount for foreclosed properties will be at minimum 5% per property, and an average discount of 10% per property. The discount methodology will take into account the likely carrying costs to the seller if the property continues in its portfolio.

The role and structure of NSP funds in financing acquisition and/or rehabilitation are unknown at this time, but will be determined by each sub recipient and specified in their applications to Minnesota Housing. Possibilities include first or second mortgages, either amortizing or deferred and participation in such mortgages; grants; low- or no-interest construction financing.

Activity Number 3:
Establish Land Banks

Activity Type: (include NSP eligible use & CDBG eligible activity)

NSP-Eligible Use	CDBG Eligible Activity
Establish financing mechanisms	Activity delivery costs for an eligible activity as defined in 24 CFR 570.206 and eligible activities defined below.
Establish land banks for homes that have been foreclosed upon.	24 CFR 570.201(a) Acquisition and (b) Disposition

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., $\leq 120\%$ of area median income).

The Land Bank activity meets the HERA low- and moderate-income national objective by serving an area in which at least 51% of the residents have incomes at or below 120 percent of area median income.

Projected Start Date: September 29, 2008

Projected End Date: March 1, 2023 (Expected date for final disposition of all land bank properties and payment of revenues to the Treasury)

Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Minnesota Housing will sub grant funds to local governments and nonprofit organizations that have not yet been selected. Sub recipients will be posted on Minnesota Housing's website after their selection. If progress toward obligating funds within deadlines is insufficient, Minnesota Housing may recapture NSP allocations to sub recipients and offer direct assistance.

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Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Depending on sub recipient priorities, this activity may be available in any of the greatest need areas identified in Section A above.

Activity Description:

This activity will acquire vacant, abandoned, and foreclosed homes, which will either be rehabilitated to local standards and operated as rental properties or other interim use (community gardens, for example) until final sale of the property to homebuyers or new rental owners, or demolished and redeveloped for a purpose that will benefit the remaining housing in the neighborhood.

Sub recipients choosing to pursue the land bank activity must define the geographic area of the land bank and document that at least 51% of residents have incomes at or below 120 percent of area median income. Priority for occupancy of land bank properties until their final disposition will be for low- and moderate-income tenants. But because the national objective is based on the incomes of residents in the land bank area and not the tenants, sub recipients may choose to not thoroughly verify and document incomes of tenants.

When land bank properties are temporarily operated as rental properties, renters will benefit when foreclosed and abandoned properties are brought back on line, brought up to standards, and made available for rent.

Whether a vacant, abandoned, or foreclosed property is rehabilitated and operated temporarily as a rental property or is demolished and made available again for a use that is beneficial to the remaining housing in the land bank area, the area residents' benefit when blight is removed and the property is used again to provide housing or a neighborhood amenity.

If a project is used until final disposition as a rental property, NSP funds may also be used to capitalize an operating reserve to reduce tenants' rents to more affordable levels.

The acquisition discount for foreclosed properties will be at minimum 5% per property, and an average discount for the portfolio of 10% per property. The discount methodology will take into account the likely carrying costs to the seller if the property continues in its portfolio.

The role and structure of NSP funds in financing acquisition and/or rehabilitation are unknown at this time, but will be determined by each sub recipient and specified in their applications to Minnesota Housing. Possibilities include first or second mortgages, either amortizing or deferred and participation in such mortgages; grants; low- or no-interest construction financing.

Activity Number 4:
Demolish Blighted Structures

Activity Type: (include NSP eligible use & CDBG eligible activity)

NSP-Eligible Use	CDBG Eligible Activity
Establish financing mechanisms	Activity delivery costs for an eligible activity as defined in 24 CFR 570.206 and eligible activities defined below.
Demolish blighted structures	24 CFR 570.201(d) Clearance for blighted structures only.

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., $\leq 120\%$ of area median income).

The Demolition activity meets the HERA low- and moderate-income national objective by serving areas in which at least 51% of the residents have incomes at or below 120 percent area median income. Sub recipients must define the area in which they will conduct this activity and document that resident incomes meet the NSP requirement.

Projected Start Date: September 29, 2008

Projected End Date: March 1, 2013

Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Minnesota Housing will sub grant funds to local governments and nonprofit organizations that have not yet been selected. Sub recipients will be posted on Minnesota Housing's website after their selection. If progress toward obligating funds within deadlines is insufficient, Minnesota Housing may recapture NSP allocations to sub recipients and offer direct assistance.

Minnesota Housing Finance Agency is the State's responsible organization.

Address: 400 Sibley Street, Suite 300
St. Paul, MN 55101

Agency Contact: Ruth Simmons
(651) 297-5146
ruth.simmons@state.mn.us

Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Depending on sub recipient priorities, this activity may be available in any of the greatest need areas identified in Section A above.

Activity Description:

This activity will demolish blighted residential and non-residential structures. Sub recipients choosing to undertake the demolition activity must define the geographic area in which it will occur and document that at least 51% of residents have incomes at or below 120 percent of area median income.

Blighted structures lower property values and are a nuisance and hazard to residents because they are often subject to vandalism, stripped of fixtures and amenities, and harbor illegal activities. Removal of those negative influences on a neighborhood is a benefit to area residents.

Activity Number 5:
Redevelop Demolished or Vacant Structures.

Activity Type: (include NSP eligible use & CDBG eligible activity)

NSP-Eligible Use	CDBG Eligible Activity
Establish financing mechanisms	Activity delivery costs for an eligible activity as defined in 24 CFR 570.206 and eligible activities defined below.
Redevelop demolished or vacant properties for housing.	24 CFR 570.201(a) Acquisition (b) Disposition (c) Public facilities and improvements (n) Direct homeownership assistance, including downpayment and closing cost assistance, mortgage interest rate reduction, lease/purchase, contract for deed

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., $\leq 120\%$ of area median income).

This redevelopment activity meets the HERA low- and moderate-income national objective when it provides permanent residential structures that will be occupied by households with incomes at or below 120 per cent of area median income.

Projected Start Date: September 29, 2008

Projected End Date: March 1, 2013

Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Minnesota Housing will sub grant funds to local governments and nonprofit organizations that have not yet been selected. Sub recipients will be posted on Minnesota Housing's website after their selection. If progress toward obligating funds within deadlines is insufficient, Minnesota Housing may recapture NSP allocations to sub recipients and offer direct assistance.

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Agency Contact: Ruth Simmons
(651) 297-5146
ruth.simmons@state.mn.us

Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Depending on sub recipient priorities, this activity may be available in any of the greatest need areas identified in Section A above.

Activity Description:

This activity will redevelop demolished or vacant properties to provide permanent housing or public facilities (such as parks) that benefit the surrounding residential area. Redevelopment for commercial purposes will not be permitted. Sub recipients choosing to undertake the redevelopment activity must specify how many of the units to be produced will be occupied by households with incomes less than 50% of the area median income.

Tenants of redeveloped properties, whether homebuyers or renters, will benefit from living in new structures that fully meet codes and standards and are affordable, within the definitions of 24 CFR §92.252 and §92.254.

I. TOTAL BUDGET: (Include public and private components)

Public: \$38,849,929

Private: Unknown at this time, but it is expected to be significant. Developer and property buyer's will bring equity to each development and construction and end-loan financings are expected to be significant.

J. PERFORMANCE MEASURES (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent):

Minnesota Housing has not developed performance measures for units serving households with incomes up to 50% AMI; between 50% and 80% AMI; and between 80% and 120% of AMI. Measure will be developed when sub recipients are selected.

CERTIFICATIONS

- (1) **Affirmatively further fair housing.** The jurisdiction will affirmatively further fair housing, which means that it will conduct an analysis to identify impediments to fair housing choice within the jurisdiction, take appropriate actions to overcome the effects of any impediments identified through that analysis, and maintain records reflecting the analysis and actions in this regard.
- (2) **Anti-lobbying.** The jurisdiction will comply with restrictions on lobbying required by 24 CFR part 87, together with disclosure forms, if required by that part.
- (3) **Authority of Jurisdiction.** The jurisdiction possesses the legal authority to carry out the programs for which it is seeking funding, in accordance with applicable HUD regulations and other program requirements.
- (4) **Consistency with Plan.** The housing activities to be undertaken with NSP funds are consistent with its consolidated plan, which means that NSP funds will be used to meet the congressionally identified needs of abandoned and foreclosed homes in the targeted area set forth in the grantee's substantial amendment.
- (5) **Acquisition and relocation.** The jurisdiction will comply with the acquisition and relocation requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (42 U.S.C. 4601), and implementing regulations at 49 CFR part 24, except as those provisions are modified by the Notice for the NSP program published by HUD.
- (6) **Section 3.** The jurisdiction will comply with section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u), and implementing regulations at 24 CFR part 135.
- (7) **Citizen Participation.** The jurisdiction is in full compliance and following a detailed citizen participation plan that satisfies the requirements of Sections 24 CFR 91.105 or 91.115, as modified by NSP requirements.
- (8) **Following Plan.** The jurisdiction is following a current consolidated plan (or Comprehensive Housing Affordability Strategy) that has been approved by HUD.
- (9) **Use of funds in 18 months.** The jurisdiction will comply with Title III of Division B of the Housing and Economic Recovery Act of 2008 by using, as defined in the NSP Notice, all of its grant funds within 18 months of receipt of the grant.
- (10) **Use NSP funds \leq 120 of AMI.** The jurisdiction will comply with the requirement that all of the NSP funds made available to it will be used with respect to individuals and families whose incomes do not exceed 120 percent of area median income.
- (11) **Assessments.** The jurisdiction will not attempt to recover any capital costs of public improvements assisted with CDBG funds, including Section 108 loan guaranteed funds, by assessing any amount against properties owned and occupied by persons of low- and moderate-income, including any fee charged or assessment made as a condition of obtaining access to such public improvements. However, if NSP funds are used to pay the proportion of a fee or assessment attributable to the capital costs of public improvements (assisted in part with NSP funds) financed from other revenue sources, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than CDBG funds. In addition, with respect to properties owned and occupied by moderate-income (but not low-income) families, an assessment or charge may be made against the property with respect to the public improvements financed by a source other than NSP funds if the jurisdiction certifies that it lacks NSP or CDBG funds to cover the assessment.

(12) **Excessive Force.** The jurisdiction certifies that it has adopted and is enforcing: (1) a policy prohibiting the use of excessive force by law enforcement agencies within its jurisdiction against any individuals engaged in non-violent civil rights demonstrations; and (2) a policy of enforcing applicable State and local laws against physically barring entrance to or exit from, a facility or location that is the subject of such non-violent civil rights demonstrations within its jurisdiction.

(13) **Compliance with anti-discrimination laws.** The NSP grant will be conducted and administered in conformity with title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), the Fair Housing Act (42 U.S.C. 3601-3619), and implementing regulations.

(14) **Compliance with lead-based paint procedures.** The activities concerning lead-based paint will comply with the requirements of part 35, subparts A, B, J, K, and R of this title.

(15) **Compliance with laws.** The jurisdiction will comply with applicable laws.

Signature/Authorized Official

Date

Title

Minnesota NSP Action Plan

Appendix A

DRAFT

Methodology for Targeting Areas of Greatest Need and Distributing Maximum Allocations

November 7, 2008

Overview

The purpose of this document is to outline the methodology that Minnesota Housing used to identify areas of greatest need and to assign maximum funding distributions around the state. To accomplish this task, Minnesota Housing analyzed foreclosure, real-estate-owned (REO), subprime, and delinquency data on a zip code basis and sheriff's sales data on a county basis.

The following summarizes Minnesota's Housing's process:

4. Identify the 120 zip codes with the highest foreclosure/REO, subprime, and delinquency rates (problem loans per 100 households).
5. Initially, assign funds to the 120 high-need zip codes based on their number of foreclosures, REOs, delinquencies, and subprime loans, using the total funding level allocated to both the state and the five entitlement jurisdictions.
6. Adjust initial assignment to account for:
 - o Rates of foreclosures/REOs, delinquencies, and subprime loans per 100 households (with a 20 percent cap). (The initial assignment in step 2 is based on the number of problem loans, not the rate per 100 households.)
 - o Median family income level (with a 15 percent adjustment cap).
 - o Median age of housing stock (with a 15 percent adjustment cap).
9. Adjust the assignment downward for the zip codes that fall in Anoka, Dakota, Hennepin counties and the cities of St. Paul and Minneapolis to account for the funds that these localities will receive directly from HUD.
10. Make final assignment of funds to zip codes receiving more than \$500,000 under the funding formula; make these funds available on a non-competitive basis with applications due January 17, 2009.
11. Do not assign but pool funds for zip codes that were to receive less than \$500,000 under the funding formula; make pooled funds available in any one of the 24 highest-need counties (not just the zip codes identified as high-need) on a competitive basis with applications due January 17, 2009 for both a Greater Minnesota and Metro Area pool.
12. If funds are still available and not distributed to specific stabilization efforts after Minnesota Housing's Board makes awards at the end of February, 2009, collapse all remaining funds (zip-code

assignment and competitive pool) into a single pool. These funds will be available on a pipeline basis for stabilization efforts in any of the 24 highest-need counties.

13. Limit funding to efforts that meet program goals, criteria, and requirements.

The 120 highest-need zip codes (out of 872 statewide) each have a concentration of problems loans (foreclosures/REOs, delinquencies, and subprime loans) per 100 households that is at least 27 percent higher than the statewide concentration of problem loans. The 24 highest-need counties (out of 87 statewide) either rank in the top 20 in number of sheriff sales or in the top 20 in concentration of sheriff's sales per 100 households. Sixteen counties rank in the top 20 under both criteria, while 8 rank in the top 20 under one of the two criteria. The 20 counties with the highest concentration of sheriff sales each have at least as many sheriff's sales per 100 households as the overall statewide rate.

Primary Data Source

- Federal Reserve Board estimates of subprime and alt-A loans based on data from First American LoanPerformance.
- The data captures roughly 70 percent of subprime and 95 percent of alt-A loans sold into securities. The data primarily apply to loans for owner-occupied housing, but Minnesota housing made adjustments to account for loans to rental investors. See below for more details.
- The data captures the portfolio of loans as of April 2008.
- Analysis strongly supports the validity of the LoanPerformance data:
 - County-Level Data Statewide: The correlation coefficient between LoanPerformance's number of loans in foreclosure or REO and HousingLink's number of sheriff sales is 0.998.¹
 - Zip-Code-Level Data within the Twin Cities Metro Area: The correlation coefficient between the two sources is 0.958.² After Minnesota Housing made adjustments to account for loans to rental investors, the correlation coefficient increased to 0.972.
- Minnesota Housing did not rely on HousingLink data because it is only available statewide at the county level. (Zip code data from HousingLink is only available for the Twin Cities metro area.) The Neighborhood Stabilization program is about identifying neighborhoods in greatest need and stabilizing them. Zip code data is closer to the neighborhood level than county data.
- Minnesota Housing considered, but did not use, the foreclosure estimates provided by HUD for two reasons. First, HUD correlated its county foreclosure rates with 90-day county delinquency rates from Equifax. The correlation for Minnesota was 0.466. According to HUD, "All grantees are advised to look to other local data when considering their areas of greatest need, particularly if they are not among the states listed as having high rates of intrastate correlation between the HUD estimated foreclosure rate and the Equifax 90-day delinquency data."³ Minnesota is not among the 23 states identified as having a high correlation. Second, Minnesota Housing found some concerning outcomes

¹ The LoanPerformance zip code data was aggregated up to the county level by assigning each zip code to its primary county. HousingLink's sheriff's sales apply to 2007 through the 2nd quarter of 2008.

² The sheriff's sales only applied to those that occurred during 2007. HousingLink has only compiled sheriff's sales data by zip code within the metro area and only for 2007.

³ U.S. Department of Housing and Urban Development. "Neighborhood Stabilization Program – Revised 10-20-08 Methodology and Data Dictionary for HUD Provided Data,"

http://www.huduser.org/publications/commdevl/Desc_%20NSP_data.doc.

in the HUD data. For example, according to the HUD data, all of Clearwater County has a foreclosure/abandonment risk score of 10 (on a scale of 1 to 10, with 10 being the highest risk). Yet, according to HousingLink, Clearwater County ranks 35th among Minnesota counties in sheriff's sales per 100 households.

The HUD foreclosure estimates may be accurate in the Twin Cities metro area. Hennepin County has found a close match between the HUD estimates and its sheriff's sales data. Nevertheless, Minnesota Housing needed accurate data across the entire state.

- Minnesota Housing considered, but did not use, the U.S. Postal Service's data on vacant properties for several reasons. (This data has been made available by HUD.) First, when Minnesota Housing contacted HUD's primary analyst responsible for this data, he provided a list of concerns and caveats, and concluded with the statement, "As you can see this data is fraught with issues." According to the HUD analyst, the "data are more dependable in urban areas." The postal service tracks vacancies on urban and rural postal routes differently. In addition, the Postal Service vacancy data provided by HUD does not include structures that have been abandoned for an extended period of time. Given these caveats, Minnesota Housing is very reluctant to use this data without a mechanism for validating its accuracy throughout the state.

Key Data Elements

- Number of subprime and alt-A loans in foreclosure or real-estate-owned (REO) (*Federal Reserve LoanPerformance Reports*, April 2008)
- Number of subprime loans (*Federal Reserve LoanPerformance Reports*, April 2008)
- Number of subprime and alt-A loans 60+ days past due (*Federal Reserve LoanPerformance Reports*, April 2008)
- Number of households in each zip code in 2000 (*Census Bureau*, 2000)
- Estimated household growth rate for each county between 2000-07 (*State Demographer's Office*)
- Estimated number of households in each zip code in 2007 (Minnesota Housing estimated the number of households in each zip code in 2007 by using the 2000 household population and then applying the household growth rate for each zip code's primary county.)
- Median family income (*Census Bureau*, 1999)
- Median housing structure age (*Census Bureau*, 2000)

Data Adjustments

Minnesota Housing needed to adjust the data in the Federal Reserve LoanPerformance Reports to account for rental-investor loans. For owner-occupied housing, the Federal Reserve LoanPerformance Reports provide data on the number of subprime and alt-A loans in each zip code and the number of these loans that are in delinquency, foreclosure, or REO. For loans taken out by rental investors, the Federal Reserve LoanPerformance Reports only provide data on the number of subprime and alt-A loans. It does not identify the number of these loans that are in delinquency, foreclosure, or REO. Statewide, rental-investor loans account for about 7 percent of subprime loans and 23 percent of alt-A loans; however these percentages are substantially higher in some zip codes.

To account for these rental-investor loans, Minnesota Housing applied the delinquency and foreclosure/REO rates for owner-occupied housing to the rental-investor loans in each zip code. For example, if 30 percent of subprime loans for owner-occupied housing are in foreclosure or REO in a zip code, Minnesota Housing applied this rate to the number of subprime rental-investor loans in that zip code to estimate the

number of rental-investor foreclosures/REOs. Minnesota Housing then added the number of owner-occupied and rental-investor foreclosures/REOs to calculate the number of all foreclosures/REOs for subprime loans. Using this methodology, Minnesota Housing estimated the number of all (owner-occupied and rental-investor) subprime and alt-A loans in delinquency and foreclosure/REO. These adjustments are beneficial. By making them, the correlation coefficient at the zip code level between LoanPerformance's foreclosures/REOs and HousingLink's sheriffs sales increased from 0.958 to 0.972.

Minnesota Housing also adjusted the data to account for the fact that the Federal Reserve LoanPerformance Reports capture roughly 70 percent of subprime loans and 95 percent of alt-A loans sold into securities.⁴ The number of subprime loans in each zip code was adjusted upward to add the missing 30 percent. Likewise, the number of alt-A loans in each zip code was adjusted upward to account for the missing 5 percent. Minnesota Housing assumed that the delinquency and foreclosure/REO rates for the added loans were the same as the rates for the loans captured in the data.

Data Limitations

The best statewide data at the neighborhood level to which Minnesota Housing had access was zip code data. However, zip code data has its limitations. A single zip code can contain a broad spectrum of housing. For example, one section of a zip code may have a very high concentration of foreclosures, while another part of the same zip code may have very few foreclosures. Under this scenario, it is entirely possible that this zip code did not rank as one of the highest-need zip codes in the state and will not have a direct assignment of funds. However, as described below, Minnesota Housing has set aside a pool of the NSP funding for these type of areas. These funds will be available on a competitive basis for areas (not receiving a direct assignment) in one of the 24 highest-need counties. See below for details.

Identification and Distribution Process

Identifying Areas of Greatest Need

Minnesota Housing first identified zip codes with high concentrations of loans that are in foreclosure, REO, or delinquency or are subprime. The rates are expressed as loans per 100 households. Each zip code's rates are compared with the state's rates and weighted to give greater emphasis to loans actually in foreclosure or REO. The "need score" formula is:

Score =

- $0.7 \times (\text{the zip code's number of loans in foreclosure or REO per 100 households} / \text{state's foreclosures or REOs per 100 households})$
+
- $0.15 \times (\text{the zip code's number of subprime loans per 100 households} / \text{state's subprime loans per 100 households})$
+
- $0.15 \times (\text{the zip code's number of loans 60+ days past due per 100 households} / \text{state's loans 60+ days past due per 100 households})$

(The delinquency rate is an assessment of the potential for future increases in foreclosures.)

⁴ This assessment of the data coverage comes from the Minneapolis Federal Reserve Bank, "Request for Federal Reserve Board reports based on information from First American LoanPerformance," p. 2.

The need score expresses each zip code's rate of problem loans in relation to the overall state rate. A zip code with a need score of 200 percent has twice as many problem loans per 100 households as the state average, and a zip code with a need score of 600 percent has six times as many problems per 100 households.

From Minnesota's 872 zip codes, Minnesota Housing identified the 120 zip codes with the greatest need for assistance. These 120 zip codes account for just over 57 percent of all Minnesota's subprime and alt-A loans in foreclosure or REO. Minnesota Housing chose the 120 cut off to balance four factors: (1) targeting funding funds to the highest-need zip codes, (2) capturing in the selected zip codes at least 50 percent of the state's subprime and alt-A loans in foreclosure or REO, (3) balancing the distribution of funds between the Twin Cities metro area and Greater Minnesota, and (4) assigning roughly two-thirds of the funds directly to zip codes and one-third on a competitive basis.

See the spreadsheet titled "Zip Code Analysis" for a listing of each zip code's need score. The spreadsheet can be accessed at

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007439.xls.

Distribution Process

In aggregate, Minnesota will receive \$57.8 million from HUD under the Neighborhood Stabilization Program. Of these funds, HUD has already assigned \$18.9 million to five localities (Minneapolis, St. Paul, Anoka, Dakota, and Hennepin), but these communities are eligible to receive additional funding from Minnesota Housing. To account for this, Minnesota Housing first determined how much in aggregate should be assigned to the zip codes in each of these communities. It then deducted the amount HUD has already assigned to them to compute the additional amount that these communities will be eligible to receive from Minnesota Housing. However, as the assignment process described below will show, HUD's formula assigned more funding to Dakota County than Minnesota Housing's formula would assign to it in aggregate. Consequently, a negative funding level of \$945,819 occurs after HUD's assignment is deducted from Minnesota Housing's. Thus, Minnesota Housing is setting aside \$945,819 from the start (before any other funds are assigned) to make up for this short fall.

In addition, Minnesota Housing has already identified projects through its fall Community Revitalization RFP process that could receive \$3.68 million through NSP, and Minnesota Housing will initially retain \$500,000 for its own administrative expenses. If administrative costs are less, the remaining administrative funds will be distributed to communities for stabilization at a later date.

To start the process for assigning maximum distributions to individual zip codes, Minnesota Housing started with \$52.7 million. This is the overall Minnesota allocation of \$57.8 million less:

- \$945,819 for the Dakota County adjustment
- \$3.68 million for the Community Revitalization projects already targeted to receive NSP funds
- \$500,000 for Minnesota Housing's administrative costs

As described earlier, the \$18.9 million that HUD has already assigned to five communities will be deducted from the zip code assignments after each zip code's aggregate assignment is determined.

Minnesota Housing limited its assignment process to the 120 highest-need zip codes. Each of these zip codes first received an initial assignment based on its share of foreclosures, REOs, delinquencies, and

subprime loans among the 120 high-need zip codes. In the assignment formula, each factor had the same weight as the need score.

Initial Assignment Percentage=

- $0.7 \times (\text{the zip code's number of loans in foreclosure or REO} / \text{number of loans in foreclosure or REO from all 120 high-need zip codes})$
+
- $0.15 \times (\text{the zip code's number of subprime loans} / \text{number of subprime loans from all 120 high-need zip codes})$
+
- $0.15 \times (\text{the zip code's number of loans 60+ days past due} / \text{number of loans 60+ days past due from all 120 high-need zip codes})$

The assignment percentage for each high-need zip code was then applied to the \$52.7 million funding level (after the initial deductions). Under this initial assignment, all zip codes received the same amount of funding for each loan in foreclosure or REO. Similarly, they received the same amount for each delinquency and another set amount for each subprime loan.

Because this initial assignment is based on the number of problem loans in each zip code, rather than the concentration of problem loans (problem loans per 100 households), two zip codes with the same number of foreclosures would receive the same amount of funds even if one has half the number of households as the other and a foreclosure rate that is twice as high. To stabilize a neighborhood by reducing the concentration of foreclosed, abandoned, and blighted properties, zip codes and neighborhoods with higher concentrations of problem loans should receive more funding. Below, an adjustment is made to account for the concentration of problem loans, which is measured by the “need score” discussed above.

The initial assignment formula also does not take into account other need factors, such as income level and the age of the housing stock in each zip code. Because lower-income areas have limited resources, it will be more difficult for them to rebound and stabilize on their own. In addition, areas with older housing will likely need more rehabilitation and/or reconstruction to make them desirable for purchase than areas with newer housing.

Adjustments:

- For each 10 percentage points that a zip code's need score is greater than 211% (the overall need score for the 120 highest-need zip codes), that zip code's initial assignment is increased by 0.5 percent, with a 20 percent cap. Conversely, for each 10 percentage points that a need score is below 211%, the initial assignment is decreased by 0.5 percent, with a 20 percent cap. For example, zip code 55411 in North Minneapolis has a need score of 784% (meaning it has nearly eight times as many problem loans per 100 households as the state overall). Consequently, it will receive a 20 percent increase in its assignment.
- For each \$1,000 that a zip code's median family income (in 2000) was below \$56,874 (the statewide median), the zip code's initial assignment is increased by 0.5 percent, with a 15 percent cap. An equivalent reduction is made for zip codes with a median income greater than \$56,874. For example, zip code 55411 had a median income in 2000 of \$29,535 and will receive a 13.7 percent increase in its assignment.
- For each year that a zip code's median housing age is greater than 31 years (the statewide median), the zip code's initial assignment is increased by 0.5 percent, with a 15 percent cap. An equivalent reduction is made for zip codes with a median housing age less than 31 years. For example, zip code 55411 had a median housing stock age of 58 years in 2000 and will receive a 13.5 percent increase.

- The increases and reductions from the three adjustments do not offset each other. To correct for this, each zip code's adjusted assignment is reduced by about 4 percent to bring the overall assignment level back to \$52.7 million.

Next, Minnesota Housing accounted for the funding that HUD is directly assigning to Anoka, Dakota, and Hennepin counties and the cities of Minneapolis and St. Paul. The zip codes and portions of zip codes that fall in these localities will have their assignments from Minnesota Housing proportionally reduced to account for the funds that HUD will directly assign to them.⁵

Under the assignment process, 37 of the 120 high-need zip codes will receive over \$500,000. These funds will be available on a non-competitive basis for stabilization efforts in these zip codes with applications due January 17, 2009. These 37 zip codes account for about 45 percent of the state's subprime and alt-A loans in foreclosure or REO.

The remaining 83 high-need zip codes would have each received less than \$500,000 under the assignment process, which would have likely assisted no more than 10 housing units across an entire zip code.⁶ Thus, Minnesota Housing dropped these 83 zip codes and pooled their assigned funds by region (seven-county metro area pool, Greater Minnesota pool, and general pool). These pooled funds will be available on a competitive basis by region with applications due January 17, 2009.

To be eligible to compete for the pooled funds, a neighborhood stabilization effort does not have to occur in one of the 83 zip codes that had their funds pooled. A neighborhood stabilization effort in any one of the 24 high-need counties will be eligible to compete for these funds. To be considered high need, a county must rank in the top 20 counties under one of two criteria – (1) number of sheriff's sales or (2) concentration of sheriff's sales (sheriff's sales per 100 households).⁷ Sixteen counties rank in the top 20 for both criteria, while another 8 rank in the top 20 for one of the two criteria. The high need counties are:

1. Anoka
2. Benton
3. Carver
4. Chisago
5. Crow Wing
6. Dakota
7. Dodge
8. Hennepin
9. Isanti
10. Kanabec
11. Le Sueur
12. Meeker
13. Mille Lacs
14. Olmsted
15. Pine

⁵ To account for zip codes that cross county and city lines, Minnesota Housing used shape files from the Census Bureau to measure the portion of each zip code that falls within the localities that will receive a direct allocation from HUD.

⁶ Based on community revitalization and foreclosure mitigation work that Minnesota Housing has financed in recent years, the level of assistance provided per housing unit averages between \$30,000 and \$80,000 depending on the amount of rehabilitation versus demolition/reconstruction is done. This assistance captures the amount of value and affordability gap provided after the home had been sold. It excludes construction financing assistance.

⁷ The list of the 24 high need counties is based on HousingLink's data on the number of sheriff's sales that occurred in 2007 and the first two quarters of 2008. Household data is for 2007.

16. Ramsey
17. Rice
18. Scott
19. Sherburne
20. Sibley
21. St. Louis
22. Stearns
23. Washington
24. Wright

See the spreadsheet titled “County Analysis” for the number and concentration sheriff’s sales in each of Minnesota’s counties. The spreadsheet can be accessed at

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007438.xls.

Assignment Results

See the spreadsheet titled “Zip Code Analysis” for the funds assigned to each of the 120 highest-need zip codes. The spreadsheet can be accessed at

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007439.xls.

Table 1 summarizes these assignment results:

Table 1: Funding to be Distributed

Overall Allocation to Minnesota	\$57.8 million
Minus Dakota County Adjustment	\$945,819
Minus Funds Already Targeted to Community Revitalization Projects	\$3.68 million
Minus Minnesota Housing Administrative Costs	\$500,000
Equals Total Funds to Distribute (Before HUD Funds to Entitlement Areas are Deducted)	\$52.7 million
Minus Funds Directly Assigned by HUD to Five Entitlement Communities	\$18.9 million
Plus Dakota County Adjustment (added back in)	\$945,819
Equals Funds to be Distributed by Minnesota Housing	\$34.7 million
Minus Funds Assigned to Zip Codes	\$23.8
Equals Pooled Funds	\$10.9

Table 2 shows the regional distribution of the \$52.7 million (before the HUD funds to entitlement areas are deducted).

Table 2: Regional Distribution (Before HUD Funds to Entitlement Areas are Deducted)

	Seven County Metro	Greater Minnesota	Crossing Metro / Greater-MN Boundary	Total
Assigned to Zip Codes	\$36.9 million	\$4.0 million	\$0.9 million	\$41.8 million*
Pooled	\$2.9 million	\$6.0 million	\$1.9 million	\$10.9 million
Total	\$39.9 million	\$10.0 million	\$2.8 million	\$52.7 million
Percentage of Total	76%	19%	5%	100%
Percentage of Sheriff's Sales	65%	35%		100%
* This \$41.8 million is the \$23.8 million assigned to zip codes by Minnesota Housing, plus the \$18.9 million directly assigned to entitlement areas by HUD, less the \$945,819 adjustment to Dakota County's allocation.				

Table 3 shows the funding for the entitlement areas based on the zip code analysis.

Table 3: Entitlement Area Assignments Based on Zip Code Analysis

Minneapolis		
	Minnesota Housing Total Assignment	\$11,213,239
	Minus HUD Assignment	\$ 5,601,967
	Net Minnesota Housing Assignment	\$ 5,611,272
St. Paul		
	Minnesota Housing Total Assignment	\$8,862,029
	Minus HUD Assignment	\$4,302,249
	Net Minnesota Housing Assignment	\$4,559,780
Hennepin (Excluding Minneapolis)		
	Minnesota Housing Total Assignment	\$7,559,486
	Minus HUD Assignment	\$3,885,729
	Net Minnesota Housing Assignment	\$3,673,757
Anoka		
	Minnesota Housing Total Assignment	\$4,883,953
	Minus HUD Assignment	\$2,377,310
	Net Minnesota Housing Allocation	\$2,506,643
Dakota		
	Minnesota Housing Total Assignment	\$1,820,172
	Minus HUD Assignment	\$2,765,991
	Equals Net Minnesota Housing Assignment	\$ -945,819
	Plus Dakota County Adjustment	\$ 945,819
	Adjusted Net Minnesota Housing Assignment	\$0

Tables 4a and 4b show the maximum distributions for specific zip codes after deducting the funds directly assigned by HUD. If a zip code falls in more than one type of jurisdiction, it is listed more than once. For the zip codes listed under a jurisdiction, the maximum distribution is that jurisdiction's share of that zip code's maximum distribution.

Table 4a: Minnesota Housing Maximum Distributions to Zip Codes in Entitlement Areas Already Receiving NSP Funds from HUD

Zip Code	NSP Entitlement Recipient from HUD	Maximum Distribution from Minnesota Housing
55303	Anoka	\$564,634
55433	Anoka	\$459,409
55421	Anoka	\$394,999
55304	Anoka	\$364,167
55448	Anoka	\$331,449
55434	Anoka	\$300,187
55330	Anoka	\$91,799
Anoka Subtotal		\$2,506,643
55024	Dakota	\$0
55075	Dakota	\$0
55044	Dakota	\$0
Dakota Subtotal		\$0
55443	Hennepin	\$709,438
55430	Hennepin	\$594,023
55429	Hennepin	\$529,601
55444	Hennepin	\$479,179
55422	Hennepin	\$415,412
55428	Hennepin	\$407,048
55445	Hennepin	\$277,847
55316	Hennepin	\$261,210
Hennepin Subtotal		\$3,673,757
55411	Minneapolis	\$2,482,799
55412	Minneapolis	\$1,588,750
55407	Minneapolis	\$880,129
55418	Minneapolis	\$455,705
55430	Minneapolis	\$203,889
Minneapolis Subtotal		\$5,611,272
55106	St. Paul	\$2,006,214
55104	St. Paul	\$740,964
55101	St. Paul	\$519,378
55107	St. Paul	\$366,027
55103	St. Paul	\$328,349
55117	St. Paul	\$299,532
55119	St. Paul	\$299,315
St. Paul Subtotal		\$4,559,780
CATEGORY TOTAL		\$16,351,453

Table 4b: Minnesota Housing Maximum Distributions to Zip Codes Not in Entitlement Areas Already Receiving NSP Funds from HUD

	Maximum Distribution from Minnesota Housing	Counties (listed alphabetically)
55371	\$796,254	Benton Isanti Mille Lacs Sherburne
55398	\$631,819	Isanti Sherburne
55040	\$552,855	Isanti
55117	\$711,514	Ramsey
55119	\$581,726	Ramsey
55421	\$85,513	Ramsey
55379	\$734,988	Scott
55309	\$940,676	Sherburne
55330	\$715,446	Sherburne Wright
55016	\$642,035	Washington
55313	\$543,883	Wright
55362	\$523,923	Wright
CATEGORY TOTAL	\$7,460,632	

Table 5: Other Funds Distributed by Minnesota Housing

Competitive Pools		
	Twin Cities Metro Area	\$ 2,937,309
	Greater Minnesota	\$ 6,026,541
	General Pool	\$ 1,893,995
	Competitive Pool Total	\$10,857,845
Projects Identified in fall CRV RFP		
	Minneapolis	\$1,590,000
	St. Paul	\$1,790,000
	St. Cloud HRA	\$ 300,000
	CRV Total	\$3,680,000

Single Pool

If funds are still available and not distributed to specific stabilization efforts after Minnesota Housing's Board makes awards at the end of February, 2009, Minnesota Housing will collapse all the remaining funds (zip-code allocated and competitive pool) that have not yet been distributed to specific neighborhood stabilization efforts into a single pool. The funds will be available on a pipeline basis for qualifying efforts in any of the 24 highest-need counties.

APPENDIX B

Appendix B – map showing high-need counties

http://www.mnhousing.gov/idc/groups/secure/documents/admin/mhfa_007440.pdf